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**BOARD OF DIRECTORS REPORTS REGARDING THE RE-ELECTION OF MR. JUAN JOSÉ ARRIETA SUDUPE AS AN INDEPENDENT DIRECTOR AND THE RATIFICATION OF THE APPOINTMENT OF MS. ANE AGIRRE ROMARATE AS AN INDEPENDENT DIRECTOR, INCLUDED IN AGENDA ITEMS 4.3 AND 4.4, RESPECTIVELY, OF THE GENERAL SHAREHOLDERS' MEETING**

**1.- INTRODUCTION**

The Nominations and Remunerations Committee of CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, SA (“CAF” or the “Company”) proposes the re-election of Juan José Arrieta Sudupe as Independent Director and the ratification of the proposed appointment by cooption of Ms. Ane Agirre Romarate as an Independent Director of the Company.

In accordance with the provisions of Section 5 of Article 529 decies and Section 3 of Article 529 quincecies of the Consolidated Text of the Spanish Corporate Enterprise Act (the “LSC”), as well as Article 15 of the Board of Directors’ Regulations, the Appointments and Remunerations Committee is responsible for proposing the appointment or re-election of independent members of the Board of Directors. This proposal must be accompanied by a report from the Board of Directors assessing the competence, experience and merits of the proposed candidate, which shall be attached to the minutes of the general meeting or the meeting of the Board itself.

These reports are issued pursuant to the aforementioned Articles and are intended to (i) endorse and report favourably on the Nominations and Remunerations Committee's proposal to re-elect Juan José Arrieta Sudupe as Independent Director for a term of four years; (ii) endorse and report favourably on the same Committee’s proposal to ratify the proposed appointment by cooption of Ms. Ane Agirre Romarate as an Independent Director of the Company for a term of four years; and (iii) assess the competence, experience and merits of the two proposed candidates.

The aforementioned proposals of the Committee are made available to the shareholders along with the current reports from the Board.

It is also stated that these reports contain full information on the identity, CV and category of the proposed candidates for the purposes of Article 518 (e) of the LSC.

**2. JUSTIFICATION OF REPORTS**

As regards the proposals related to the re-election of the aforementioned Directors, the Board informs as follows:

## 2.1. Proposals of the Nominations and Remunerations Committee

The Nominations and Remunerations Committee has issued the appropriate proposals for re-election of Mr. Arrieta and the ratification of the co-opting of Ms. Agirre by taking into consideration the following factors, among others:

a) Re-election of Juan José Arrieta Sudupe as Independent Director for the statutory term of four years:

Due to the upcoming expiry of the five year term of office of Juan José Arrieta Sudupe, pursuant to agreement of the Annual General Meeting of 8 June 2013, the Nominations and Remunerations Committee considers that it is advisable and appropriate to propose his re-election as a Director based on the following considerations, among others:

Mr. Juan José Arrieta holds a PhD in Economic and Business Sciences from Deusto University. He was General Manager of Caja Laboral from 1990 to 2007 and currently holds the position of Deputy General Manager of Deusto Business School. He was appointed as a CAF Director for the first time in 2008, and was re-elected at a later date. He belongs to the category of “Independent Directors”. He is also the Coordinator Director.

The Nominations and Remunerations Committee has verified that Mr. Arrieta:

- (i) Complies with the requirements stipulated by law, as well as in the Board of Directors Regulations and the Company Directors Selection Policy, to be appointed as a Director.
- (ii) He is not subject to any legal prohibition or incompatibility or any of the cases for reconsideration of his position by the Board, according to article 18 of the Company Board of Directors Regulations.
- (iii) He has served as a member of the Board and Coordinating Director with the appropriate dedication and commitment to his role, and has the time required for the proper performance of his duties, and
- (iv) The legal and statutory conditions which permit him to be included under the category of Independent Director continue to be met.

Consequently, the Committee proposes the re-election of Mr. Juan José Arrieta Sudupe as an Independent Director for the statutory period of four years.

b) Ratification of the appointment of Ms. Ane Agirre Romarate as an Independent Director for the statutory term of four years:

Following the Nominations and Remunerations Committee’s proposal on 19 December 2017, the Board of Directors unanimously approved the proposed appointment by cooption of Ms. Ane Agirre Romarate as an Independent Director to fill the vacancy on the Board as a result of the voluntary resignation of Mr. Xabier Garaialde Maiztegi.

Ms. Ane Agirre Romarate has a degree in Economics and Business Administration and a Master's Degree in Advanced Management from Deusto University. Amongst others, she has held the positions of Knowledge Management Manager, and Development and Training Manager, at the BBVA Group, and Talent Manager at EITB. She is a founding partner of the

Vesper project for consulting and coaching, dedicated to organisational transformation and managerial development, in which she is currently professionally involved. . He belongs to the category of “Independent Directors”.

The Committee reiterates the considerations regarding the assessment of Ms. Agirre's career and professional profile contained in the proposed appointment by cooption submitted to the Board on 19 December 2017. This highlighted her several years' experience as a Consultant and Executive Coach and in other fields, bringing a diversity of knowledge and skills to the Board.

In addition, the Committee hereby states that the candidate:

- (i) Complies with the requirements stipulated by law, as well as in the Board of Directors Regulations and the Company Directors Selection Policy, to be appointed as a Director.
- (ii) She is not subject to any legal prohibition or incompatibility or any of the cases for reconsideration of her position by the Board, according to article 18 of the Company Board of Directors Regulations.
- (iii) She has served as a Director with the appropriate dedication and commitment to her role since she was appointed by cooption, and has the time required for the proper performance of her duties, and
- (iv) The legal and statutory conditions stipulated to have the status of Independent Director are still valid for this candidate.

It is also worth of note that the ratification of this proposed appointment brings the composition of Company Directors on the Board to 30% female members. Likewise, the total number of independent directors has increased. This is all in line with Corporate Governance listed standards.

In view of the foregoing, the Committee proposes the ratification of the appointment of Ms. Ane Agirre Romarate as an Independent Director for the statutory term of four years.

## **2.2. Supporting facts for the Proposals**

In accordance with the provisions of the Board of Directors Regulations and the Company Directors Selection Policy, and taking into consideration the reasons established by the Nominations and Remunerations Committee (which the Board endorses), the Board of Directors considers that:

- a) The experience and professional career of Mr. Juan José Arrieta accredit his competence and merits to occupy the position of Director. The Board values highly his outstanding contribution to the good management of Company interests, particularly his performance as Coordinator Director, and thus considers it justified and appropriate to re-elect him to the position of Independent Director for the statutory term of four years.
- b) The career and professional profile of Ms. Ane Agirre Romarate support her competence and merits for ratification of her appointment as Director. The Board values her experience and extensive knowledge in various business fields positively, as well as her willingness to exercise the functions of a director. Her membership of the Board is in

line with the Company's commitment to diversity on the Board, regarding gender and knowledge and skills . Therefore, it proposes ratification of her appointment as Independent Director on the Board for the statutory period of four years.

### **3. CONCLUSION AND PROPOSALS FOR AGREEMENTS**

For all the above reasons, the Board considers the following proposed resolutions justified and shall submit them to the General Shareholders' Meeting for decision by separate votes under Items 4.3 and 4.4 of the agenda:

*“4.3 Re-elect Juan José Arrieta Sudupe as an Independent Director, for a term of four years.*

*4.4 Ratify the proposed appointment by cooption of Ms. Ane Agirre Romarate as an Independent Director, for a term of four years.”*

Beasain, 24 April 2018